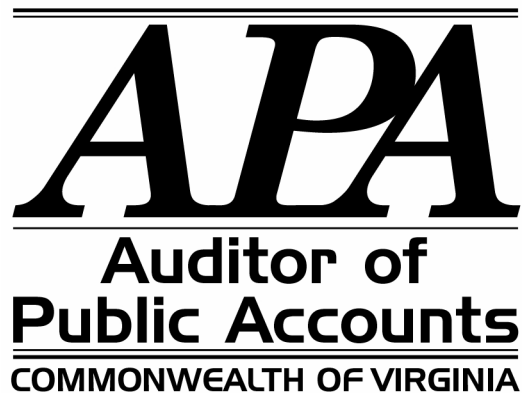


**VIRGINIA BIOTECHNOLOGY RESEARCH  
PARK AUTHORITY  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2003**



## **AUDIT SUMMARY**

Our audit of the Virginia Biotechnology Research Park Authority for the year ended June 30, 2003, found:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;
- no internal control matters that we consider material weaknesses;
- no instances of noncompliance required to be reported; and
- adequate corrective action on the prior year's finding.

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October 15, 2003

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Directors  
Virginia Biotechnology Research Park Authority

We have audited the accounts and records of the **Virginia Biotechnology Research Park Authority** as of and for the year ended June 30, 2003, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

#### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Virginia Biotechnology Research Park Authority, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Biotechnology Research Park Authority as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages five through ten is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Virginia Biotechnology Research Park Authority as of and for the year ended June 30, 2003, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

### Compliance

As part of obtaining reasonable assurance about whether the Virginia Biotechnology Research Park Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Virginia Biotechnology Research Park Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion in the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Status of Prior Findings

The Virginia Biotechnology Research Park Authority has taken adequate corrective action with respect to the audit finding reported in the prior year.

The “Independent Auditor’s Report on Compliance and Internal Control over Financial Reporting” is intended solely for the information and use of the Governor and General Assembly of Virginia, Virginia Biotechnology Research Park Authority Board and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 20, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2003

This section is intended to provide an overview of the financial activity of the Authority and as such should be read in conjunction with the accompanying financial statements.

### Summary of Organization and Business

The Authority is a political subdivision of the Commonwealth of Virginia, established in 1993 by an act of the Virginia General Assembly. The Authority provides a mechanism for financing construction of the Virginia Biotechnology Research Park (Research Park) through bond issuances. The Virginia Biotechnology Research Park Corporation (Corporation) is an IRS Code Section 501(c)(3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. The results of operations of the Corporation are presented in blended format in the financial statements of the Authority. Corporation revenues and expenses each totaled \$171,368 for fiscal year 2003.

The Board and staff of the Authority manage daily operations of the Research Park. The Research Park is a life sciences community affiliated with Virginia Commonwealth University that houses companies', research institutes, non-profits, and government laboratories on a 34-acre campus in downtown Richmond, Virginia. The mission of the Authority is to advance life sciences by promoting and commercializing scientific research, thereby creating investment and jobs.

The Authority does not have taxing power. Operations are funded from lease and ancillary service revenues. The acquisition and construction of capital assets are funded by bond issuances, long-term notes payable, appropriations from the Commonwealth of Virginia and contract support payments from Virginia Commonwealth University. The Authority also received funding in previous years through bonds issued by the City of Richmond. The Research Park as of June 30, 2003, was occupied by 46 private and non-profit companies, four state laboratories and five Virginia Commonwealth University departments, filling more than 524,499 square feet of laboratory and office space in eight buildings and employing more than 1,200 individuals.

### HIGHLIGHTS

#### Financial Highlights for FY 2003

- Cash decreased and capital lease receivable increased significantly as a result of capital and related financing activities for the Biotech Six project.
- Net assets of the Authority decreased \$280 thousand.
- Operating revenues increased \$110 thousand.
- Operating expenses decreased \$162 thousand.



### Authority Highlights

- Construction was completed on the Biotech Six project, which is occupied by the Department of Consolidated Laboratory Services.
- Construction was completed on the Biotech Seven project, which is occupied by the United Network for Organ Sharing.
- Biotech One and Center, the Research Park's two multi-tenant buildings, had 38 tenant companies and were 95 percent occupied at June 30, 2003.

### OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements. The MD&A represents management's examination and analysis of the financial condition and performance of the Authority. The financial statements of the Authority are presented using the accrual method of accounting.

The financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Assets presents the financial position of the Authority on an accrual basis, including information about the type and amount of resources and obligations at June 30, 2003. The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the Authority's operating and non-operating activities and provides information as to changes to the net assets. The Statement of Cash Flows presents changes in cash and cash equivalents, as a result of operational and financing activities. The Authority currently has no investing activities and as such this section is not presented.

The Notes to the Financial Statements provide required disclosures and other pertinent information necessary to provide a reader of the financial statements a complete understanding of the data being presented. The notes are comprised of information about the Authority's accounting policies, significant account balances, obligations, commitments, contingencies, and subsequent events.

### CONDENSED FINANCIAL INFORMATION

#### Statement of Net Assets

The following schedule reflects the condensed Statement of Net Assets compared to the prior year.

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Current and other assets	\$ 135,316,309	\$ 79,939,910	\$ 55,376,399
Capital assets - net	<u>24,077,298</u>	<u>53,067,243</u>	<u>(28,989,945)</u>
Total assets	<u>159,393,607</u>	<u>133,007,153</u>	<u>26,386,454</u>
Current and other liabilities	51,834,970	21,925,572	29,909,398

Long term liabilities	<u>95,481,739</u>	<u>98,725,000</u>	<u>(3,243,261)</u>
Total liabilities	<u>147,316,709</u>	<u>120,650,572</u>	<u>26,666,137</u>
Invested in capital assets, net of related debt	5,130,182	37,977,243	(32,847,061)
Unrestricted	<u>6,946,716</u>	<u>(25,620,662)</u>	<u>32,567,378</u>
Total net assets	<u>\$ 12,076,898</u>	<u>\$ 12,356,581</u>	<u>\$ (279,683)</u>

For more detailed information see the accompanying Statement of Net Assets.

The Authority's net assets decreased \$279,683. Overall assets and liabilities increased mainly as a result of the completion of the Biotech Six Project and establishment of the capital lease.

#### Statement of Revenues, Expenses and Changes in Net Assets

The following schedule compares the revenues and expenses for the current and previous fiscal year.

	<u>2003</u>	<u>2002</u>	<u>Change</u>
REVENUES			
Operating revenues:			
Rent and parking income	\$ 2,902,288	\$ 2,990,328	\$ (88,040)
University support	171,368	386,687	(215,319)
Interest	16,548	21,753	(5,205)
Miscellaneous	<u>341,732</u>	<u>30,048</u>	<u>311,684</u>
Total operating revenues	<u>3,431,936</u>	<u>3,428,816</u>	<u>(3,120)</u>
EXPENSES			
Operating expenses:			
Salaries and benefits	650,296	648,456	1,840
Marketing and promotion	97,907	106,874	(8,967)
Occupancy costs	726,774	839,956	(113,182)
Administrative	133,240	111,893	21,347
Amortization expense	171,378	170,573	805
Depreciation expense	1,108,305	1,128,100	(19,795)
Other	<u>14,175</u>	<u>58,765</u>	<u>(44,590)</u>
Total operating expenses	<u>2,902,075</u>	<u>3,064,617</u>	<u>(162,542)</u>
Net operating revenues (expenses)	<u>529,861</u>	<u>364,199</u>	<u>165,662</u>

#### NON-OPERATING REVENUES

Interest revenue	4,485,984	2,490,323	1,995,661
Interest expense	(5,105,403)	(4,144,998)	(960,405)
Developer's fees	100,013	778,499	(678,486)
Grant revenue	30,000	40,000	(10,000)
Grant expense	(60,293)	(107,519)	47,226
Reimbursement from university	106,438	-	106,438
Total non-operating expenses	<u>(443,261)</u>	<u>(943,695)</u>	<u>500,434</u>
Special item – EDA expense	<u>(366,283)</u>	<u>-</u>	<u>(366,283)</u>
Change in net assets	(279,683)	(579,496)	299,813
<b>NET ASSETS</b>			
Net Assets - Beginning of Year	<u>12,356,581</u>	<u>12,936,077</u>	<u>(579,496)</u>
Net Assets - End of Year	<u>\$ 12,076,898</u>	<u>\$12,356,581</u>	<u>\$ (279,683)</u>

#### CAPITAL ASSETS AND LONG-TERM DEBT

The Authority began construction on May 1, 2001 of Biotech Six, a \$60 million project, which houses the Virginia Division of Consolidated Laboratory Services (DCLS). Completed in May of 2003, DCLS occupies 191,000 square feet of laboratory space and employs 225 scientists, technicians, and administrative personnel. The construction project was financed by the Authority through the issuance of Series 2001 \$60,010,000 Lease Revenue Bonds. Debt service will be handled by DCLS through direct payments to the bond trustee; however, the Authority will carry these balances and adjust the account balance accordingly.

The Authority issued \$12 million of bonds in April 2002 as a conduit to finance construction of the new national headquarters of the United Network for Organ Sharing (UNOS). Designated as Biotech Seven, the new UNOS headquarters building is an 80,000 square-foot facility which UNOS owns and occupies. The Authority is master leasing up to 12,000 square feet of space from UNOS for subleasing to other Research Park companies. Construction commenced in September 2001 and was completed in December 2002.

The following schedule shows number of occupants and leased space by building.

<u>Buildings</u>	<u>Number of Occupants</u>	<u>Occupied Square Feet</u>	<u>Date Acquired Constructed</u>
Biotech Center	48	9,538	1995
Biotech One	285	92,643	1996
Biotech Two	306	102,124	1998
Biotech Three <sup>(A)</sup>	98	31,124	1996
Biotech Four <sup>(A)</sup>	49	12,448	1996
Biotech Five	13	13,400	1999
Biotech Six	225	191,000	2003
Biotech Seven	250	68,000	2002
Public Safety Building <sup>(B)</sup>	10	2,926	1999
612-614 North 4th Street	<u>3</u>	<u>1,296</u>	1999
Total	1,287	524,449	

(A) Property is owned by VCU Real Estate Foundation

(B) Space leased from City of Richmond

### SIGNIFICANT EVENTS

The Authority has an agreement with Chesterfield County for joint development of a satellite life sciences research park on 325 acres near the James River that will be appropriate for larger life sciences companies that want a relationship with the Research Park and VCU, but need more space than is available downtown. The site will be known as the Virginia Biotechnology Research Park at Meadowville and will have the capacity for approximately 2 million square feet of office, laboratory, and manufacturing space.

The Authority has a similar agreement with Henrico County to designate areas of the White Oak Technology Park as another satellite of the Research Park. White Oak Technology Park is the location of Infineon, Hewlett Packard, and other Richmond area technology manufacturers.

On April 17, 2002, the Virginia General Assembly enacted legislation to provide \$2 million of funding to VCU for the express purpose of land acquisition for the Research Park. On behalf of the Park, the Authority has begun to acquire additional properties, furthering the expansion of the Research Park during fiscal year 2004.

### ADDITIONAL INFORMATION

When fully developed, the Research Park will contain 1.5 to 1.9 million square feet of research, office, and laboratory space in 15-18 buildings and employ 3,000 scientists, researchers, engineers, and technicians, working in fields that include drug development, medical diagnostics and devices, biomedical engineering, environmental biosciences, forensics, and laboratory services.

On August 23, 2002 the Authority received notification that the U.S. Department of Economic Development Administration (EDA) required repayment of a portion of a \$1 million EDA Financial Assistance award. The grant was awarded to the Authority in 1995 to partially fund construction of the Biotech One building. The EDA, upon a recent review of compliance with special award conditions related to compliance with the Davis-Bacon Act, has determined that the Authority was not fully in compliance with the required conditions. The EDA has agreed to a lesser repayment amount of \$366,283 with payments of \$36,739 each December 15 and June 15, at 2 percent annual interest, until the agreed upon amount is paid in full.

## **FINANCIAL STATEMENTS**

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY  
STATEMENT OF NET ASSETS  
For the Year Ended June 30, 2003

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 721,300
Cash with trustee (Note 2)	1,244,473
Accounts receivable (Note 3)	364,231
Prepaid expenses	3,291
Capital lease receivable - Biotech Two and Six (Note 5)	7,114,094
Unamortized bond issue cost	79,602
Total current assets	9,526,991
Noncurrent assets:	
Cash with trustee (Note 2)	1,341,852
Capital lease receivable - Biotech Two and Six (Note 5)	120,845,018
Unamortized interest expense - Biotech Two	2,431,800
Unamortized bond issue costs	1,170,648
Nondepreciable property, plant, and equipment	3,982,918
Depreciable property, plant, and equipment, net (Note 4)	20,094,380
Total noncurrent assets	149,866,616
Total assets	159,393,607
LIABILITIES	
Current liabilities:	
Accounts payable	102,486
Accounts payable - DCLS expenses	1,244,473
Accounts payable - EDA ( note 11)	73,478
Retainage payable	813,890
Customer deposits	47,841
Deferred rental income	42,298
Long-term debt - current portion (Note 7)	3,817,459
Unearned income - Biotech Two and Six - current portion (Note 5)	4,074,094
Total current liabilities	10,216,019
Noncurrent liabilities:	
Long-term debt (Note 7)	95,481,739
Accrued EDA liability (Note 11)	274,491
Unearned income - Biotech Two and Six (Note 5)	41,344,460
Total noncurrent liabilities	137,100,690
Total liabilities	147,316,709
NET ASSETS	
Invested in capital assets, net of related debt	5,130,182
Unrestricted	6,946,716
Total net assets	\$ 12,076,898

The accompanying notes are an integral part of this financial statement.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2003

Operating revenues:	
Rental income	\$ 2,788,809
Parking income	113,479
Maintenance contract income	8,500
University support (Note 9)	171,368
Interest income	16,548
Reimbursement of prior year build out expense	250,296
Miscellaneous	82,936
	<hr/>
Total operating revenues	3,431,936
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Operating expenses:	
Salaries and benefits	650,296
Marketing and promotion	97,907
Occupancy costs	726,774
Administrative	133,240
Amortization expense	171,378
Depreciation expense	1,108,305
Other expense	14,175
	<hr/>
Total operating expenses	2,902,075
	<hr/>
Income from operations	529,861
	<hr/>
Nonoperating revenues(expenses):	
Developer's fees	100,013
Reimbursement from university for land purchase	106,438
Interest revenue	4,485,984
Interest expense	(5,105,403)
Grant revenue (Note 10)	30,000
Grant expense (Note 10)	(60,293)
	<hr/>
Total nonoperating revenues(expenses)	(443,261)
	<hr/>
Special item - EDA Expense (Note 11)	(366,283)
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Decrease in net assets	(279,683)
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Total net assets - beginning	12,356,581
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Total net assets - ending	\$ 12,076,898
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The accompanying notes are an integral part of this financial statement.



VIRGINIA BIOTECHNOLOGY RESEARCH PARK  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2003

Cash flows from operating activities:	
Cash received from tenants	\$ 2,651,568
Cash received for parking	113,479
Cash received for interest income	16,548
University support	171,368
Other revenues	341,732
Payments for employees	(650,296)
Payments for marketing expenses	(97,907)
Payments for administrative expenses	(133,240)
Payments for occupancy expenses	(851,420)
Other expenses	(14,175)
Net cash provided by operating activities	<u>1,547,657</u>
Cash flows form noncapital financing activities:	
Payments made on behalf of VBDC	(20,067)
Grant expense	(60,293)
Net cash used by noncapital financing activities	<u>(80,360)</u>
Cash flows from capital and related financing activities:	
Payments for EDA settlement	(18,314)
Expenses paid on behalf of DCLS	(43,522)
Collections from City of Richmond - parking deck project	99,611
Proceeds from developer's fees	75,013
Proceeds from the issuance of notes payable	600,000
Payments for Biotech Six expenses	(32,529,460)
Principal received from capital lease payments	2,910,000
Interest received from capital lease payments	4,209,259
Principal paid on lease related bonds	(2,910,000)
Interest paid on lease related bonds	(4,209,259)
Interest received on funds held in trust	276,724
Principal paid on non lease related debt	(725,802)
Interest paid on non lease related debt	(896,142)
Cash payments to University Health System	(11,688)
Reimbursement from university for land purchase	106,438
Acquisition of fixed assets	(1,185,182)
Net cash provided by capital and related activities	<u>(34,252,324)</u>
Net decrease in cash and cash equivalents	(32,785,027)
Cash and cash equivalents at July 1, 2002	<u>36,092,652</u>
Cash and cash equivalents at June 30, 2003	<u>\$ 3,307,625</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 529,861
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,108,305
Amortization expense	171,378
Decrease in accounts payable	(121,355)
Increase in accounts receivable	(158,955)
Increase in customer deposits	21,034
Increase in deferred rental income	680
Increase in prepaid expenses	(3,291)
Net cash provided by operating activities	<u>\$ 1,547,657</u>

The accompanying notes are an integral part of this financial statement.

## **NOTES TO FINANCIAL STATEMENTS**

# VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The Authority, which began operations effective July 1, 1993, provides a mechanism for financing construction of the biotechnology research park through bond issuances. The Virginia Biotechnology Research Park Corporation is an IRS Code Section 501(c)(3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. For financial statement presentation, the Corporation is reflected as a blended component unit of the Authority. Corporation revenues and expenses each totaled \$171,368 for the year ended June 30, 2003.

Per a Memorandum of Understanding between the Authority and Virginia Commonwealth University Real Estate and Foundation Services Department (Foundation), the Foundation provides accounting guidance, support, and oversight of the Authority's financial statements and transactions.

The Authority is responsible for operating, managing, and maintaining the Virginia Biotechnology Research Park properties, including maintaining grounds and oversight of sub-contractors.

The Authority is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

#### B. Basis of Accounting

The financial statements of the Virginia Biotechnology Research Park Authority (Authority) have been prepared using the economic resources measurement focus and the accrual basis of accounting.

The Authority defines operating revenues as revenue derived from the primary business activities of the Authority. These activities include the following: 1) lease revenues related to non-capitalized leases with lease terms of one-year or less; 2) contributions of the Commonwealth of Virginia, Virginia Commonwealth University or other contributed income directly supporting the operations or advancement of the Virginia Biotechnology Research Park; 3) revenue derived from ownership and management of parking surface lots within the footprint of the Virginia Biotechnology Research Park; and 4) other miscellaneous revenue sources such as vending machine commissions, event fees for conference facilities, tenant fax and copying fees, and expenditure reimbursements that are not related to a specific capital outlay project.

The Authority defines non-operating revenues as revenue derived from capital lease agreements and capital financing activities such as interest income on funds held in trust accounts and developer's fees earned on bond issuances. Additionally, grant revenue received through a grant

from the Virginia Department of Business Assistance Services is considered as non-operating revenue as it is earmarked for the establishment of the Virginia Biosciences Development Center.

C. Asset Capitalization and Depreciation Method

Fixed assets are recorded at cost at the time of acquisition. Fixed assets with a value in excess of \$2,500 are capitalized. Donated fixed assets are carried at market value at the date of contribution. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation is computed on the straight-line basis over the estimated useful life of the property ranging from 2 to 30 years.

2. CASH AND CASH EQUIVALENTS

The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq. of the Code of Virginia or covered by federal depository insurance. Other funds of the Authority are invested in the State Treasurer's Local Government Investment Pool (LGIP), whose carrying value is equal to the market value. Cash with the trustee represents bond proceeds held by trustees.

3. ACCOUNTS RECEIVABLE

The following table details accounts receivable at June 30, 2003:

	<u>Receivable Balance</u>
Rent receivable	\$ 228,932
Due from the Whiting - Turner	13,365
Due from DCLS	64,064
Due from VBDC	50,067
Miscellaneous receivables	<u>7,803</u>
Total	<u>\$ 364,231</u>

The City of Richmond (City) has contracted to build a three-level parking structure within the Biotech Six structure under a condominium agreement. The \$2.9 million City Parking Deck Project is being fully funded and operated by the City. The amount due from the City is for parking structure construction costs incurred by the Authority at June 30, 2003, that the City has not yet reimbursed. The amount due from the Department of General Services' Division of Consolidated Laboratories Services (DCLS) is for costs related to the Biotech Six Project.

#### 4. PROPERTY, PLANT, AND EQUIPMENT

	Beginning Balance as of July 1, 2002	Acquired (Increased)	Deleted (Decreased)	Ending Balance as of June 30, 2003
Land	\$ 2,914,177	\$ 1,068,741	\$ -	\$ 3,982,918
Buildings	24,397,521	-	-	24,397,521
Equipment	270,029	2,715	-	272,744
Leasehold improvements	1,349,880	113,726	-	1,463,606
Construction in progress	<u>29,066,821</u>	<u>30,156,437</u>	<u>59,223,258</u>	<u>-</u>
Total at historical cost	<u>57,998,428</u>	<u>30,341,619</u>	<u>59,223,258</u>	<u>30,116,789</u>
Less accumulated depreciation for:				
Buildings	4,269,041	836,149	-	5,105,190
Equipment	43,468	4,195	-	47,663
Leasehold improvements	<u>618,676</u>	<u>267,962</u>	<u>-</u>	<u>886,638</u>
Capital assets, net	<u>\$ 53,067,243</u>	<u>\$30,233,313</u>	<u>\$59,223,258</u>	<u>\$ 24,077,298</u>

The Authority's construction in progress represented expenses for architectural fees, planning, and construction costs associated with the project known as Biotech Six, and was reclassified as a capital lease upon occupancy in June 2003. The Department of General Services' Division of Consolidated Laboratories Services occupies the building. The leasehold improvement amount represents the build-out cost of expanded space for tenants in the Biotech One building. Equipment represents the installation and purchase of a HVAC system in the Biotech One building.

#### 5. LEASES RECEIVABLE

The Authority has a capital lease agreement with the Department of General Services (DGS) for the Biotech Two building. The capital lease has a value of \$38,387,227 at June 30, 2003, which equals the remaining principal and interest due on the debt for the Biotech Two building. The financial statements include unearned income of \$12,197,226 related to the capital lease receivable for interest due in future periods.

On September 6, 2000, DGS transferred the lease rights and obligation to the Department of Criminal Justice Services (DCJS). Lease payments will continue through 2018 when title to the Biotech Two building will transfer to DCJS.

The Authority also has a capital lease agreement with DGS for the Biotech Six building. The capital lease has a value of \$89,571,885 at June 30, 2003, which equals the remaining principal and interest due on the debt for the Biotech Six building. The financial statements include unearned income of \$33,221,328 related to the capital lease receivable for interest due in future periods.

The Authority also has an operating lease with Ondeo Degremont, Inc. on the Biotech Five building which expires on October 31, 2013. Future lease payments total \$3,206,845.

6. CONDUIT DEBT OBLIGATIONS

On April 9, 2002, the Authority issued \$12,000,000 in Series 2002 Variable Rate Revenue Bonds to fund construction of the Biotech Seven Project. Biotech Seven is an office facility built specifically for lease to the United Network for Organ Sharing (UNOS). The bonds are secured by a letter of credit and are payable solely from the lease payments made by the borrower under the loan agreement. Upon repayment of the bonds, ownership of the facility transfers to UNOS. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth and accordingly have not been reported in the accompanying financial statements.

7. LONG-TERM DEBT

Long-term debt of the Authority consists of the following bonds and notes payable at June 30, 2003:

5.33 percent to 6.25 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech One Project), Series 1998. These bonds were issued to retire \$11.9 million of tenant improvement loans, which were originally financed with a 9.5 percent interest rate.	\$ 11,785,000
4.00 percent to 5.30 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Two Project), Series 1996.	26,190,000
5.25 percent to 6.40 percent taxable and tax-exempt Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Five Project), Series 1999A and 1999B.	2,480,000
4.00 percent to 5.00 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Consolidated Laboratories Project), Series 2001.	58,145,000
7.00 percent deed of trust note payable dated February 15, 2002 due February 15, 2005 for the purchase of the properties at 310 - 318 East Leigh Street	125,000
LIBOR + 3 percent deed of trust note payable dated July 18, 2002 with a minimum principal payment requirement due on October 1, 2005. Rate then changes to LIBOR + 2 percent with a final payment due on October 1, 2008. Note was obtained for the purchase of property at North 5th and Jackson Streets.	<u>574,198</u>
Total long-term debt	<u>\$99,299,198</u>

Long-term debt matures as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 3,817,459	\$ 4,939,703	\$ 8,757,162
2005	4,139,339	4,748,688	8,888,027
2006	4,226,314	4,540,259	8,766,573
2007	4,448,387	4,324,943	8,773,330
2008	4,665,565	4,111,833	8,777,398
2009-2013	27,807,134	16,748,901	44,556,035
2014-2018	30,860,000	8,756,939	39,616,939
2019-2022	<u>19,335,000</u>	<u>1,831,044</u>	<u>21,166,044</u>
Totals	<u>\$99,299,198</u>	<u>\$50,002,310</u>	<u>\$149,301,508</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Bonds payable:					
Commonwealth of Virginia Lease Revenue Bonds	\$ 102,210,000	\$ -	\$ 3,610,000	\$ 98,600,000	\$ 3,817,459
Notes payable:					
Deed of Trust	<u>125,000</u>	<u>600,000</u>	<u>25,802</u>	<u>699,198</u>	<u>-</u>
Total	<u>\$ 102,335,000</u>	<u>\$ 600,000</u>	<u>\$ 3,635,802</u>	<u>\$ 99,299,198</u>	<u>\$ 3,817,459</u>

## 8. RETIREMENT

Employees of the Authority participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers a life insurance plan for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the Authority, has overall responsibility for contributions to these plans.

## 9. FINANCIAL SUPPORT

The Authority received \$171,368 from Virginia Commonwealth University (VCU) during fiscal year 2003. VCU made contributions of \$110,021 (unrestricted), \$19,168 (restricted for marketing and salaries), \$42,179 (adjunct faculty contributions).

The Authority has entered into a lease agreement with Virginia Commonwealth University. On August 19, 1994, a Memorandum of Understanding was signed committing the University to a 20-year Master Lease with the Authority which guarantees monthly rent equal to the principal and interest necessary to amortize the outstanding debt associated with the construction to the facilities and additional rent required. Upon the commencement of this lease, the amount payable under the

lease shall not exceed \$935,000 annually during the first ten years of the lease and \$2,200,000 annually for the remainder of the lease term.

10. RELATED PARTY TRANSACTIONS

During fiscal year 2002, the Authority established the Virginia Biosciences Development Center (Center). The Center is a private, not-for-profit corporation, organized under 501(c)(3) of the Internal Revenue Code that provides office space and administrative support to start-up biotechnology companies. In fiscal year 2003, the Authority obtained a grant of \$30,000 from the Virginia Department of Business Assistance Services to support the establishment of the Center. The Authority was required to provide a match of \$30,000 under the terms of the grant. Expenses incurred by the Authority related to the operations of the Center during fiscal year 2003 totaled \$60,293.

11. RESULTS OF CONTINGENT LIABILITY

The Authority was involved in a dispute brought by the Economic Development Administration related to grant funds received for construction costs. After receiving an appeal from the Authority, the Economic Development Administration imposed a fee of \$366,283 in settlement of the issue and agreed to a 5-year repayment schedule. During fiscal year 2003, the Authority made a payment of \$18,314 on this liability.



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